

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 7326**

**BILL NUMBER:** HB 1003

**NOTE PREPARED:** Feb 12, 2013

**BILL AMENDED:** Feb 11, 2013

**SUBJECT:** School Scholarships.

**FIRST AUTHOR:** Rep. Behning

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) *Unreimbursed Education Expenditures* - This bill increases the amount, from \$1,000 to \$3,000, that a taxpayer may deduct for certain unreimbursed education expenditures. It provides that a taxpayer may carry forward a School Scholarship Income Tax Credit for a taxable year that begins after December 31, 2012.

*Preschool* - The bill establishes a Preschool Education Scholarship and Tax Credit Program. It provides a 50% state income tax credit to a taxpayer that makes a contribution to a preschool scholarship granting organization for use by the organization in an eligible preschool education scholarship program for eligible preschool students. The bill provides that the program is administered by the Division of Family Resources (Division). It requires the Division to determine whether a preschool scholarship program meets the standards for certification and to enter into an agreement with a preschool scholarship granting organization that offers a certified program.

*Scholarship Granting Organizations* - The bill removes a requirement, for purposes of receiving a scholarship from a scholarship granting organization, that the individual either: (1) is entering kindergarten or attended a public school the previous year; or (2) received a scholarship in a previous year from a scholarship granting organization.

The bill provides that a taxpayer making a contribution to a scholarship granting organization may designate a participating school for which the taxpayer's contribution must be used as scholarships.

The bill requires a scholarship granting organization to use not more than 10% of total contributions received for administrative expenses.

*Choice Scholarship* - The bill provides that a student may be eligible for a Choice Scholarship if the student:

1. Was enrolled in Grade 1 through Grade 12 in a public school within or outside Indiana before the first semester for which the individual receives a Choice Scholarship;
2. Is in foster care;
3. Is a child with a disability who requires special education;
4. Is a sibling of an individual who previously received a Choice Scholarship or a scholarship from a scholarship granting organization;
5. Has a parent who has received an honorable discharge from the armed forces of the United States or National Guard or is currently serving in the armed forces of the United States or National Guard and is a member of household whose income is not more than 300% of the amount required to qualify for the free and reduced lunch program; or
6. Is an individual who is enrolled in an eligible school at the time the individual first meets income requirements.

The bill also provides that an eligible Choice Scholarship student who is initially required to meet an income requirement of being a member of a household with an income that does not exceed 150% of the amount required to qualify for the free and reduced lunch program continues to qualify for the choice scholarship as long as the individual is a member of a household with an income that does not exceed 300% of the amount required to qualify for the free and reduced lunch program.

It provides that an individual who:

1. Is in foster care;
2. Attended a public school the previous year and is a member of a household with an annual income not exceeding the amount necessary to qualify for the free or reduced lunch program;
3. Attended an eligible school at the time the individual first met the income requirements and is a member of a household with an annual income not exceeding the amount necessary to qualify for the free or reduced lunch program;
4. Is a child with a disability who requires special education;
5. Is a sibling of an individual who previously received a Choice Scholarship or a scholarship from a scholarship granting organization; or
6. Has a parent who has received an honorable discharge from the armed forces of the United States or National Guard or is currently serving in the armed forces of the United States or National Guard;

may receive up to 90% of the amount that the state tuition support that the public school in the student's legal settlement would receive for the student if the student attended the public school.

The bill provides that an eligible student who is subject to certain income requirements may receive up to 50% of the amount of state tuition support a public school would receive for the student if the student attended the public school and the student's household has an annual income of not more than 300% of the amount required to qualify for the free or reduced lunch program.

The bill increases the Choice Scholarship cap for students enrolled in Grades 1 through 8.

The bill requires the Department to process an application for an eligible school and Choice Scholarship student within 15 days. It provides that the department must accept applications for Choice Scholarship students and eligible schools, at a minimum, from March 1 through September 1 for the upcoming school year.

The bill provides that in calculating the amount of a Choice Scholarship, in addition to a certain percent of state

tuition support, the scholarship would include any applicable amount that a school corporation (in which the student has legal settlement) would receive for the student as part of a special education grant.

The bill removes a provision that allows the Department to make only a partial Choice Scholarship grant.

The bill make conforming amendments a technical amendment.

**Effective Date:** January 1, 2013 (retroactive); July 1, 2013.

**Explanation of State Expenditures:** *Choice Scholarship:* The bill would increase: (1) the pool of students eligible for a Choice Scholarship; and (2) the maximum Choice Scholarship for 1<sup>st</sup> through 8<sup>th</sup> grade students.

The bill expands the pool of students who would be eligible for Choice Scholarships by adding: (1) children with disabilities who require special education; (2) children in foster care; (3) children with a parent who has received an honorable discharge from the armed forces or who is on active duty in the armed forces; (4) a sibling of a child who has received a Choice Scholarship or school scholarship from a scholarship granting organization; and (5) children who attended an eligible school at the time they met the income requirements and are from households with an annual income not exceeding the amount necessary to qualify for the free or reduced price lunch program. The bill also provides that a child who initially meets the income eligibility requirements for a Choice Scholarship and whose household income subsequently increases remains eligible for the scholarship, if the child's household income does not exceed 300% of the amount necessary to qualify for the free or reduced price lunch program. The increase in eligible children due to these changes is indeterminable, but is likely to be significant.

The bill increases the maximum Choice Scholarship for 1<sup>st</sup> through 8<sup>th</sup> grade students from \$4,500 to \$5,500 for FY 2014 and to \$6,500 for FY 2015. For FY 2013, approximately 3,854 of the 9,135 choice scholarships were funded at the \$4,500 level. The scholarships with a dollar amount greater than the \$4,500 maximum averaged about \$5,667. For FY 2013, the \$1,000 increase in the maximum scholarship for 1<sup>st</sup> through 8<sup>th</sup> grade Choice Scholarship students would have cost \$3.8 M, with a \$2,000 increase costing \$7.6 M. The impact could grow as more students use the Choice Scholarship Program.

(Revised) The bill also provides that the scholarship includes any tuition support special education grants the student would have received if they had enrolled in their resident school corporation. The current special education grants are \$8,350 for severe disabilities, \$2,265 for moderate disabilities, and \$533 for communication disabilities. It is unknown how many students with Choice Scholarships have a disability.

The maximum number of scholarships for the 2011-12 school year was 7,500, and the maximum number of scholarships for the 2012-13 school year is 15,000. There is no limit on the number of Choice Scholarships for FY 2014. The following table has the number of scholarships and value of those scholarships for FY 2012 and FY 2013.

<b>Fiscal Year</b>	<b>Number of Scholarships</b>	<b>Value of Scholarships</b>	<b>Average Scholarship</b>
2012	3,911	\$ 15.6 M	\$3,988.75
2013	9,135	\$37.3 M	\$4,083.10

(Revised) The time line for the Department to approve a Choice Scholarship should have minor fiscal impact on the Department.

*Preschool Scholarships - Division of Family Resources (DFR):* The bill requires the DFR to certify nonprofit preschool scholarship granting organizations (PSGOs) in the state and make information on these programs publicly available. The bill specifies the requirements to be met by a PSGO to receive and maintain certification by the DFR. Under the bill, only preschools that are certified as level 3 or 4 Paths to Quality providers can be eligible to receive scholarships from a PSGO. Currently, the DFR certifies and inspects child care providers and preschools that request certification as level 3 and 4 Paths to Quality providers and maintains information on its website regarding these providers. DFR should be able to accomplish the certification and other administrative responsibilities of the bill with existing staff and resource levels.

*Eligible Children:* Under the bill, a child would be eligible for a preschool scholarship from a preschool scholarship granting organization if the child: (1) is three years old or four years old; (2) is an Indiana resident; (3) is a member of a household with an annual income of not more than 200% of the income required for the individual to qualify for the federal free and reduced price lunch program; and (4) is enrolling in an eligible preschool for the first time or received a scholarship from a preschool scholarship granting organization in a previous year.

It is estimated that there are 114,511 three-year-old and four-year-old children in the state that are members of households with an annual income of not more than 200% of the income required to qualify for the federal free and reduced price lunch program. This is based on data from the Kids Count Data Center and a distribution of children under the age of 18 by federal poverty level. Out of this group, the following three groups of children already participate in federally funded preschool programs:

- (1) 9,515 children receive CCDF vouchers.
- (2) 3,228 children are served by Title I preschools.
- (3) 15,530 children are served by Head Start programs.

On a statewide basis, this would leave a total of 86,238 three-year-old and four-year-old children who could meet the eligibility criteria for a scholarship from a preschool scholarship granting organization.

*Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes relating to the nonpublic school expense deduction and the new tax credits proposed in this bill. The DOR's current level of resources should be sufficient to implement these changes.

**Explanation of State Revenues:** The estimated revenue loss from the tax provision changes in this bill are summarized in the table below.

<b>Tax Provision</b>	<b>FY 2014</b>	<b>FY 2015</b>
Increase in Nonpublic School Expense Deduction	(\$5.4 M - \$5.9 M)	(\$5.4 M - \$6.3 M)
Allowing Carry Forward of School Scholarship Tax Credit	No Impact	Indeterminable Revenue Loss
Preschool Education Scholarship Tax Credit	No Impact	(\$0.5 M - \$1.0 M)
<b>Total</b>	<b>(\$5.4 M - \$5.9 M)</b>	<b>(\$5.9 M - \$7.3 M)</b>

*Nonpublic School Expense Deduction:* The increase in the nonpublic school expense deduction from a maximum of \$1,000 to \$3,000 could result in an estimated revenue loss between \$5.4 M to \$5.9 M in FY 2014 and \$5.4 M to \$6.3 M in FY 2015. The estimate is based on actual tax deductions claimed in tax year 2011, which was the first year that the tax deduction was in effect. The lower bound assumes no growth in taxpayers claiming the deduction over tax year 2011. The upper bound assumes 5% annual growth in taxpayers claiming the deduction until tax year 2014. The revenue loss is estimated to grow by 2% to 3% annually thereafter.

Under current law, individual taxpayers who make unreimbursed expenditures for enrollment of a dependent child in a nonpublic school or to home school a dependent child. The deduction is equal to \$1,000 per dependent child for whom the unreimbursed expenditures are made. The bill increases the deduction from \$1,000 per child to \$3,000 per child. In tax year 2011, 44,407 taxpayers deducted \$79.0 M in nonpublic school expenses from their income under this deduction. This resulted in a revenue loss of \$2.7 M. The increase in the deduction is effective beginning in tax year 2013, so the fiscal impact will begin in FY 2014. Revenue from the individual AGI Tax is deposited in the state General Fund.

*Carry-forward of School Scholarship Tax Credit:* The bill would allow tax credits for contributions to school scholarship granting organizations beginning in tax year 2013 to be carried forward for up to nine years. This change could potentially increase the long-run revenue loss from the tax credit by allowing taxpayers who could not otherwise exhaust the credit in one year to carry forward unused credit amounts.

Current law provides a nonrefundable tax credit to individuals and corporations that make contributions to a scholarship granting organization. The credit is equal to 50% of the amount of the charitable contribution, and may be taken against the Individual and Corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. Total credits may not exceed \$5.0 M in any fiscal year, and the tax credit may not be carried back or carried forward. In tax year 2010, about \$183,000 in school scholarship credits was claimed. However, through January 18, 2012, \$2.1 M in credits has been approved for FY 2013.

*Preschool Education Scholarship Tax Credit:* This bill provides a nonrefundable tax credit to individuals and corporations that make contributions to preschool scholarship granting organizations after July 1, 2013. The amount of credits that could potentially be claimed beginning in tax year 2013 will depend on how scholarship granting organizations are established and certified by DFR. Assuming that the response to this credit is similar to the school scholarship tax credit, the impact in FY 2014 would likely be minimal. The impact in FY 2015 is estimated to total \$500,000 to \$1 M.

This credit is equal to 50% of the amount of the charitable contribution to the preschool scholarship granting organization and may be taken against the Individual and Corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. The tax credit may not be carried back or carried forward.

*Scholarship Granting Organizations* - The bill would increase the number of students that would qualify for a scholarship from an SGO. All students in private schools with income less than 200% of the amount required for the student to qualify for the free or reduced lunch program could apply to an SGO for a scholarship. The bill does not increase state expenditures but would increase the demand for SGO scholarships and might affect the amount of School Scholarship Tax Credit claimed. The impact is unknown.

There are currently five SGOs that are approved to grant scholarships. There were about 66,363 students enrolled in accredited nonpublic schools during the 2012 school year.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** *Nonpublic School Expense Deduction:* Since the increase in the deduction will decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes. Based on the current average LOIT rate of 1.45%, the estimated revenue loss due to the increased deduction could total between \$2.3 M to \$2.5 M in FY 2014 and \$2.3 M to \$2.7 M in FY 2015. The revenue loss could grow by 2% to 3% annually thereafter.

**State Agencies Affected:** Department of State Revenue; Division of Family Resources, FSSA.

**Local Agencies Affected:** Schools

**Information Sources:** OFMA Income Tax Database.

**Fiscal Analyst:** Chuck Mayfield, 317-232-4825. Randhir Jha 317-232-9556